Bolivarian Republic of Venezuela

The GDP of the Bolivarian Republic of Venezuela is estimated to have grown by 5% in 2012, driven by the construction and services sectors, both of which were fuelled by burgeoning public spending funded by high oil prices and increased public borrowing. Growth in 2013 is projected at 2.5%, on the back of higher public spending and borrowing (including by the oil company Petróleos de Venezuela (PDVSA)) drawing on available resources in funds and entities such as the National Development Fund (FONDEN). Inflation remained high throughout the year, although it was lower than in 2011. The current account surplus declined.

According to budget data for 2013, the central government ran a global deficit of 3.9% of GDP, while the primary deficit was 1.3% of GDP. Nevertheless, the budget only reflects part of total public revenue and expenditure. In 2012, the National Assembly approved a number of additional loans which increased the expenditure budgeted for the year. The budget based oil revenue on the price of US$ 50 per barrel, but the actual price averaged US$ 104.7 per barrel during the first 10 months of the year, giving the government discretionary use of unbudgeted resources. A number of extrabudgetary funds enable a substantial proportion of public spending, including FONDEN (funded by contributions from PDVSA and by excess central bank reserves) and the joint Chinese-Venezuelan fund (funded by loans from official Chinese entities, which are paid back in oil sales to China and contributions by FONDEN).

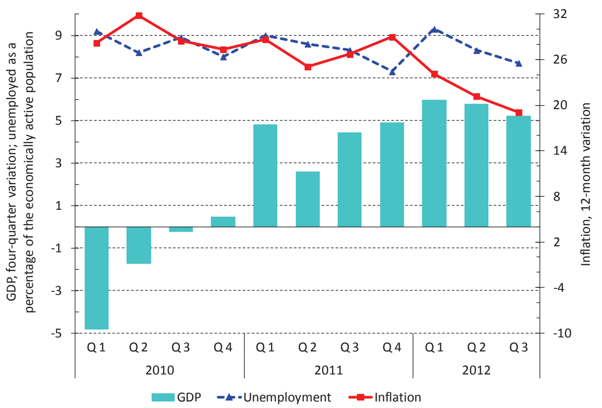
The central government public debt balance increased in 2012. Domestic debt rose by 60% in nominal terms between December 2011 and September 2012 to reach US$ 57.4 billion, while external debt (excluding PDVSA) stood at US$ 43.6 billion in September 2012. PDVSA debt, including funding from the central bank, also rose in 2012.

Monetary policy in 2012 was even more expansionary than in 2011. In the first nine months of the year, monetary aggregates M1 and M2 went up by 61.5% and 54%, respectively, far outpacing inflation. Lending mushroomed, by almost 50%.

The annual rate of inflation to September 2012, as measured by the national consumer price index, was 18%; cumulative inflation stood at 11.5% for the first nine months of the year. This is a slowdown compared with the same period in 2011, when it was 26.5% owing to increases of up to 10% for items that make up a third of the index and include some where government policy can directly impact price. Other elements which helped to moderate price increases include government efforts to increase the supply of goods through direct imports and increased foreign-currency sales by the Foreign Exchange Administration Commission (CADIVI) and the Transaction System for Foreign Currency Denominated Securities (SITME). The law on fair costs and prices, which sets the maximum price for a number of products, came into effect in April 2012.

In 2012, the official exchange rate remained

BOLIVARIAN REPUBLIC OF VENEZUELA: GDP, INFLATION AND UNEMPLOYMENT



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

unchanged at 4.3 bolívares fuertes to the dollar despite the widening gap between the official and the parallel exchange rate. The implicit rate of 5.3 bolívares fuertes per dollar was maintained in SITME for transactions that were not eligible for the official exchange rate parity authorized by CADIVI. High inflation during the period explains the overvaluation of the bolivar, because the real effective exchange rate in September 2012 was 43.6% below (currency appreciation) the average recorded between 1990 and 2009. International reserves stood at US$ 26.9 billion at the end of October 2012, 11.4% less than the same period in 2011. The central bank transferred US$ 4 billion to FONDEN during the first 10 months of 2012.During the first nine months of 2012, the GDP of the Bolivarian Republic of Venezuela grew by 5.6%; imports at constant prices rose by 21.2%. Investment (particularly public investment in infrastructure and housing, among others) and private consumption were the main drivers of growth. Gross fixed capital formation soared as the government stepped up public construction during the election period, through initiatives such as the Gran Misión Vivienda Venezuela housing programme. The economy was boosted above all by the construction, commerce and financial sectors. Other key sectors such as oil and manufacturing recorded low growth (1.4% and 2.1%, respectively).

According to figures from the Organization of Petroleum Exporting Countries (OPEC), crude oil production in the Bolivarian Republic of Venezuela dropped by 0.7% in the first three months of 2012 with respect to the same period in 2011. Investment in extraction operations in the country also declined, as shown by the Baker Hughes rig count. According to Baker Hughes, the number of drilling rigs in the country declined by 10.1% on average between 2011 and 2012 compared with the rise in investment recorded in 2011.

The unemployment rate dropped from 8.6% on average in the first three quarters of 2011 to 8.3% in the same period in 2012. The employment rate remained nearly constant (58.8% and 58.7%, respectively). Wages went up by 29.7% in the first three quarters of the year, representing a rise in the real wage. Private-sector wages rose by 27.2%, while public-sector wages shot up by 35.2%. A significant factor in this increase was a 15% minimum wage hike on 1 May and another 15% increase taking effect on 1 September.

The balance-of-payments current account posted a smaller surplus in 2012 than in 2011, due to an upturn in imports. In the first nine months of the year, export value rose by 3.9% compared with the same period in 2011, driven by the 5.2% increase in oil export value despite (unlike 2011) a price increase of only 4.9% in the first 10 months of the year. Non-oil exports fell by 20.4%. Imports expanded by 21.6% –particularly oil imports, which rose by 88.5% as growing domestic consumption outstripped oil product production capacity and a number of downstream setbacks hit, including an explosion at the Amuay refinery in August and the shutdown of the catalytic cracker at the Isla refinery in Curaçao.

The financial account deficit was smaller than in 2011. In 2012, net foreign direct investment was negative because PDVSA commitments abroad were higher than the meager flow of foreign direct investment into the country, including reinvestment of profits. The smaller balance-of-payments financial account deficit was largely due to slower accumulation of foreign-currency assets by the Venezuelan public sector in 2012 than in 2011. One of the reasons was the increase in public spending execution during the year, funded by foreign-currency assets. The private sector also acquired liquid assets abroad, although less than in 2011. Debt held by non-residents –particularly PDVSA debt– increased.

As a result, the balance of payments recorded a US$ 4.2 billion deficit in the first nine months of 2012 and is likely to close the year with a deficit.

BOLIVARIAN REPUBLIC OF VENEZUELA: MAIN ECONOMIC INDICATORS

	2010	2011	2012 [a]
	Annual growth rates		
Gross domestic product	-1.5	4.2	5.3
Per capita gross domestic product	-3.1	2.6	3.7
Consumer prices	27.4	29.0	18.5 [b]
Real average wage	-5.2	2.9	5.4
Money (M1)	27.5	44.8	61.9 [c]
Real effective exchange rate [d]	52.0	-12.6	-17.2 [c]
Terms of trade	18.9	20.2	1.0
	Annual average percentages		
Open urban unemployment rate	8.7	8.3	8.0
Central government overall balance / GDP	-3.6	-4.0	-3.8
Monetary police rate	6.3	6.4	6.4 [e]
Nominal lending rate [f]	18.0	17.4	16.3 [g]
	Millions of dollars		
Exports of goods and services	67 602	94 666	98 422
Imports of goods and services	49 661	62 365	73 207
Current account balance	12 071	24 615	15 958
Capital and financial balance [h]	-20 010	-28 647	-20 241
Overall balance	-7 939	-4 032	-4 283

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Estimates.
[b] Twelve-month variation to October 2012.
[c] Year-on-year average variation, January to October.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] January-September average.
[f] Average rate for loan operations for the six major commercial banks.
[g] January-October average.
[h] Includes errors and omissions.